Q2 2021 Group/Worksite Market Update

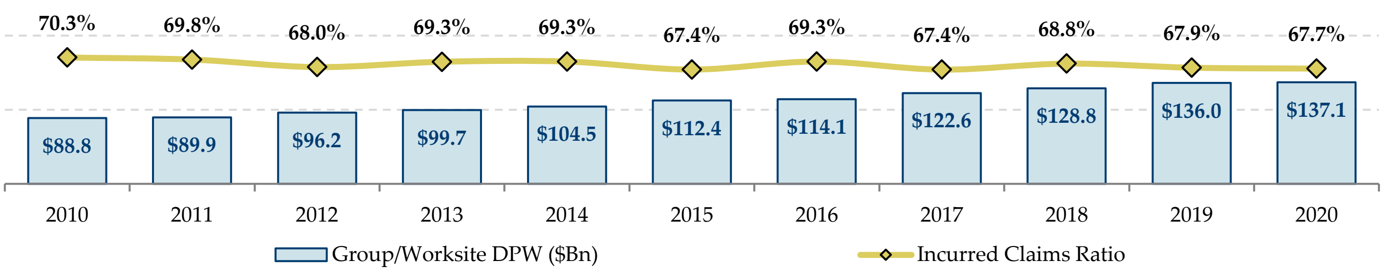
Transaction Case Study

On April 15, 2021, Reliance Standard Life Insurance Company ("Reliance Standard") agreed to acquire Standard Security Life Insurance Company of New York ("SSL") from Independence Holding Company (NYSE: IHC) for $180 million.

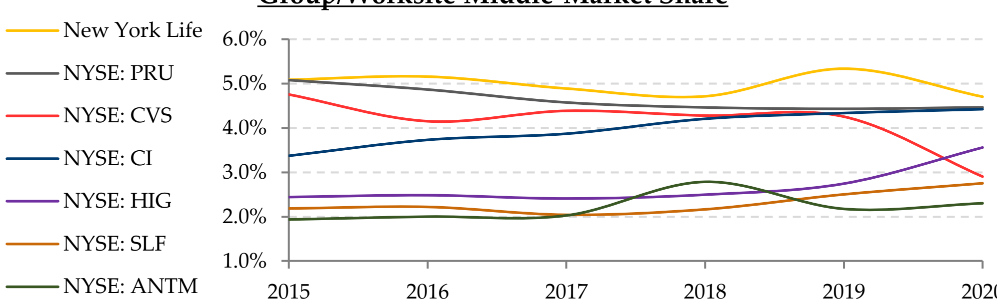
- Reliance Standard, a subsidiary of Tokio Marine Holdings, Inc., paid $180 million in cash to acquire SSL, implying a STAT earnings multiple of 12.1x, as of Q1 2021 LTM. In addition, SSL will make a pre-close dividend to IHC of STAT C&S in excess of $53 million, as of closing. This dividend implies a STAT C&S multiple of 3.4x, as of closing.[1]
- Significant synergies exist between Reliance Standard and SSL, as both place an emphasis on short-term disability coverage, specifically Paid-Family Leave ("PFL"). SSL expects to increase its DBL/PFL premium from $115 million to $192 million in 2021, as a result of an 89 percent PFL rate increase. The sector will continue to grow rapidly, with states such as Connecticut, Colorado, and Oregon beginning to require PFL coverage in the next few years. Once the acquisition is complete, Reliance Standard will become the third largest provider of New York Disability Benefit Law ("DBL") insurance, capturing roughly 10 percent of the overall market.[2,3,4]
- In 2020, while some players struggled with the impacts of COVID-19, SSL's premium grew by over 40 percent to $114.6 million and STAT earnings grew by 145 percent to $12.9 million.
- Commenting on the acquisition, Reliance Standard President and CEO, Christopher Fazzini stated: "We are excited about adding the scale and expertise we found at Standard Security Life to the Reliance Standard family. In an era of unprecedented growth and dynamism in the statutory disability and paid leave space, we are fully committed to expanding our service to employers in New York and beyond."[5]

Group/Worksite Market Insights

Group/Worksite DPW and Claims Ratio[6]



Group/Worksite Middle-Market Share[6,7]



- The group/worksite space has expanded steadily for a decade. Underwriting results have been consistently robust with industry-wide incurred claims ratios now sitting below 68 percent.
- Life insurers find the space attractive due to its short-tail, capital light nature and lack of interest rate and asset sensitivity.
- Large players such as New York Life and MET continue to acquire key product lines, while new entrants seek to acquire beachheads with ever fewer material targets available.
- MET and UNH sit firmly above the pack in terms of market share. Those below fight for middle-market positioning and look for alternative methods of achieving growth and diversification.
- Observed group/worksite valuation multiples often meet or exceed 16.0x GAAP earnings.
- Owners of non-core group/worksite platforms should consider a sale at these attractive valuations.

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Sources: Sherman & Company, S&P MI, and S&P Cap IQ. **1.** IHC Press Release. **2.** National Partnership for Women & Families. **3.** IHC Investor Presentation. **4.** Smith Group 2020 DBL Market Share Survey. **5.** Businesswire. **6.** Includes data from the following LOBs: Group Life, Group Specified Named Disease, Group Limited Benefit, Group Student, Group AD&D, Group STD, Group LTD, Group LTC, Group Medicare Supplement, Group Dental, Group Credit, Group Stop Loss, Group ASO, and Group ASC. **7.** Includes select group/worksite insurers, as defined by criteria 6. Notably, the data set excludes the top-two group/worksite writers, MET and UNH.